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VALUEWORKS

QUALITY ASSETS COMPELLING VALUATIONS

VOLUME 17,1

FIRST QUARTER 2019



Typically our newsletters address relatively short time frames. With this effort however, we are taking a step back and looking at a bigger picture. Recent developments—what has happened over the past several months or quarters—and near-term expectations—what we are preparing for over a similar future time frame—are important and guide how we position the portfolio. But what plays out over longer periods—three years to ten years—is equally, if not more important.

After a ten-year advance like the one we have just been through (our Capital Appreciation composite grew at an annualized rate of 14.1% gross over the period – see details on page 4), it is an especially good time to take a step back and ask where we are in

longer term market and economic cycles. And I can say this with confidence: we invested through the hyper-extended bull market top of 1999-2000, and the bear market bottoms of 2002 and 2008. Where we are today is neither of those two places. It seems quite reasonable that we are halfway between that major bottom ten years ago to a major top ten years from now. From 1981 to 2000 the Dow advanced from 800 to 10,000. From 1942 to 1965 the Dow advanced from 100 to 1,000. Along the way, there were modest bumps, but those were 20-year advances where investors earned well over 10x returns.

Those who are skeptical that we will ever get to such an excited top again remain “cautiously on the sidelines.” They have not partici-

pated in the past ten years, and will begrudgingly get invested into the top several years from now, and participate quite fully on the way down. We are invested on that premise because that is human nature and that is how market and economic cycles work.

Meanwhile our portfolio is chock-full of a diversified group of very well valued investments. We own two players that will be at the heart of the 5G revolution that begins this year: Apple at eleven times forward earnings, and Qualcomm which, at a 4.3% sustainable yield, is 7.5 times our projection of 2020 earnings. We own Goldman Sachs at a discount to book value and 8 times earnings, and Invesco, a leader in asset management, at 7.5 times forward earnings. We own biotech leaders Gilead and Amgen, both of which are making medical advances that are transformative, at 10 and 13 times forward earnings. We own Comcast, the best managed cable/media company, at 14 times earnings and 9 times

EBITDA. We own Transocean and Tidewater at less than one third replacement value of their assets. We own Bombardier and Spirit Aerospace trading at valuations that are a 50% plus discount to their peers, both of which will benefit from continued global transportation growth. And we own out-of-favor United Natural Foods, Bed Bath and Beyond, and Newell Corp that are each trading at single digit multiples to our estimate of underlying earning power.

And finally, last month we sold the last major purchase we made during the market crisis. We bought Eli Lilly in April 2009 at roughly \$32 per share. We collected cumulative dividends over those ten years of \$20.29 and sold the shares at very close to \$130 per share.

-Charles Lemonides, CFA

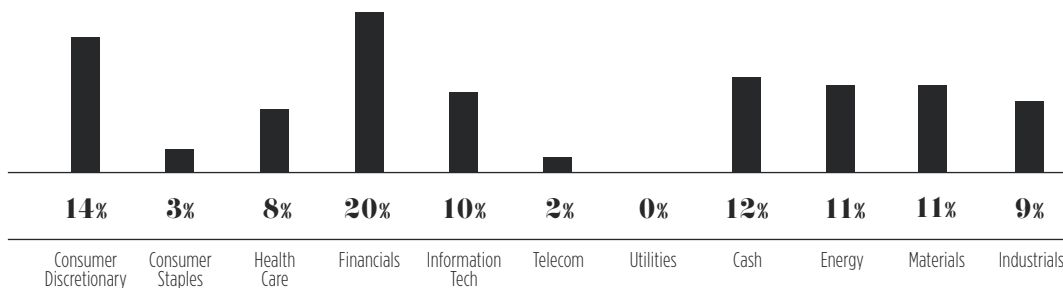
TOP 10 HOLDINGS

1. Cliffs Natural Res 6.25% Due 10-01-40
2. Qualcomm Inc.
3. Corning Inc.
4. Comcast cl A
5. Goldman Sachs Group Inc.
6. American Express Co.
7. Amgen Inc.
8. Apple Inc.
9. Investco Ltd.
10. Spirit AeroSystems Holdings, Inc

—As of 3/31/19—

*see notes on pg 4 for additional details

SECTOR DIVERSIFICATION— CAPITAL APPRECIATION COMPOSITE



DEFINING OUR PHILOSOPHY

At ValueWorks we define value investing as buying the best-quality assets at the best possible prices. We like to think of ourselves as bargain hunters: it is our goal to pay only \$0.50 to \$0.75 for \$1.00 worth of assets. We evaluate the component parts of a company, assigning each of its assets a dollar value that, when added together, comprises the underlying value of the company; if this is higher than the company's stock price, we consider it an investment opportunity.

OUR PORTFOLIO STRUCTURE

We believe risk can be better contained through educated security selection than through over-diversification. Consequently, our position sizes range between 3 – 5 % of the overall portfolio value. Fully invested portfolios tend to hold 25 – 35 individual investments.

We enter investments that we view as 25 – 50% undervalued and sell them when we see them as fairly priced. Our anticipated holding period tends to be one to two years which results in only modest portfolio turnover.

Because our decisions are based on research and sound fundamentals we view depressed price action on our securities as buying opportunities rather than sell signals.

We use senior debt and preferred instruments—offerings that can be easily misunderstood by traditional equity or fixed income investors—to gain equity type returns on safer vehicles.

OUR CLIENT SERVICES

ValueWorks provides independent investment management on an individual account basis. Our clients receive the benefits of owning securities directly, coupled with the advantages of having a dedicated portfolio manager.

Working directly with your financial consultant, we evaluate your investment profile and build a plan designed to meet your specific goals. As a high-end investment alternative, you receive:

- Individual review of your portfolio requirements
- A separately tailored portfolio created and maintained to your investment objectives and risk tolerance

- Access to the Portfolio Manager on an ongoing basis with timely and responsive communication
- Flexibility to meet your changing tax requirements and investment needs
- Comprehensive quarterly performance reports.

Working within the framework of our value investment discipline, we build portfolios that cover a wide spectrum of risk-tolerance, from aggressive to much more conservative and income oriented.

DEFINING OUR PROCESS



1 *Identification*

We monitor the financial markets to identify securities that match our investment criteria—focusing on opportunities that appear misunderstood by the general market.

2 *Appraisal*

First we identify the assets; then we appraise them. This allows us to determine the company's underlying value. We then decide whether the assets are of high quality and therefore likely to appreciate over time.

3 *Assessment*

Here we assess any claims against a company's assets; we then compare the market price of the claims to the company's underlying value. If a particular security trades at a discount, we identify factors that could eliminate the valuation gap and increase its price. We then make a decision on the purchase of the security.

4 *Re-Evaluation*

We continuously monitor our positions to determine if our original investment thesis still applies, taking necessary action to optimize our portfolio.

5 *Exit*

We exit a position when a security either reaches full valuation or changes in its outlook invalidate part of our original thesis.

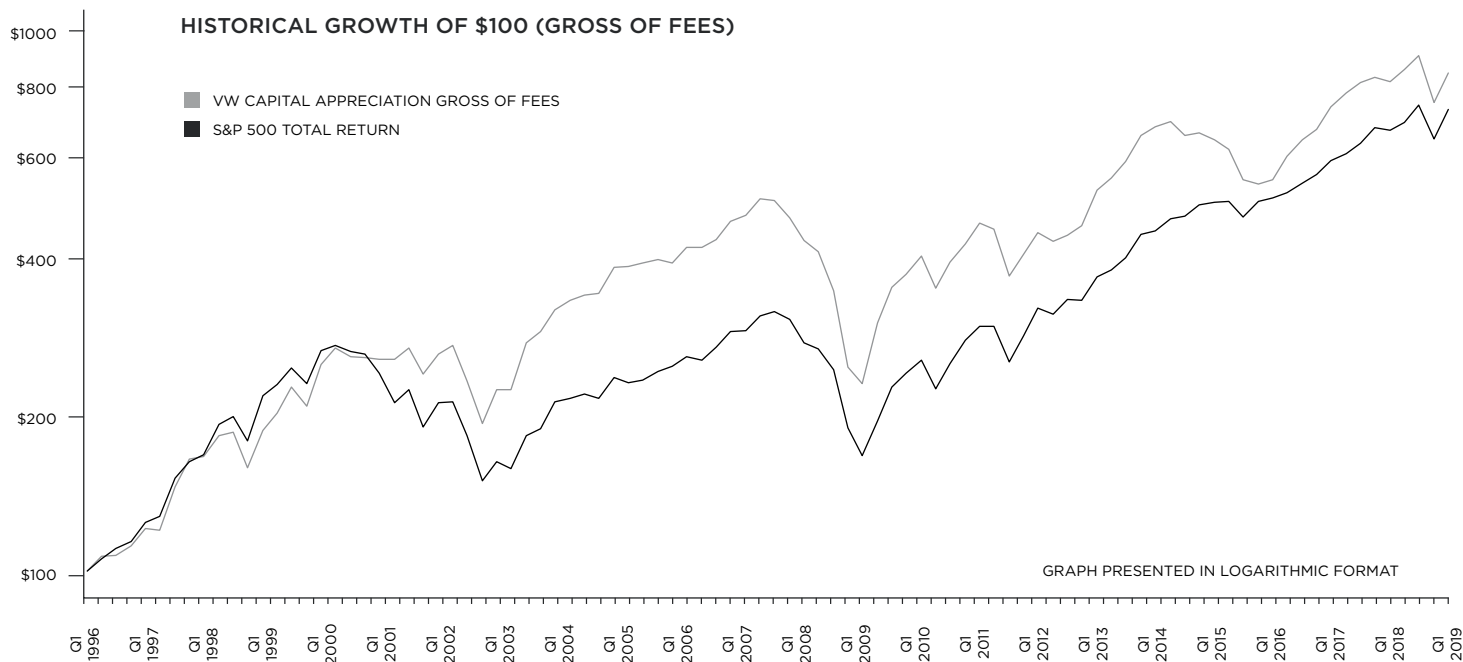
Objective

Our objective is uncomplicated, but achieving it requires a high level of research, expertise, discipline and independent judgment. By applying this framework consistently we remove emotion from the investment decision making process, enabling us to capitalize on inefficiencies built into the market.

VALUEWORKS

PERFORMANCE REVIEW

FIRST QUARTER 2019 DECEMBER 31, 2018—MARCH 31, 2019



TRAILING PERFORMANCE DATA

VALUEWORKS' CAPITAL APPRECIATION COMPOSITE

	GROSS OF FEES	NET OF FEES	S&P 500 TR
2019 Q1	13.20	12.88	13.64
2019 YTD	13.20	12.88	13.64
1 year	3.86	2.68	9.22
3 years	16.24	14.91	13.42
5 years	4.70	3.46	10.86
10 years	14.10	12.69	15.86
Life*	9.52	7.97	8.81

*Life is 23.00 years (inception 1/1/1996)

VALUEWORKS' BALANCED COMPOSITE

	GROSS OF FEES	NET OF FEES	BLENDED INDEX*
2019 Q1	11.41	10.91	8.33
2019 YTD	11.41	10.91	8.33
1 year	2.65	1.21	7.43
3 years	13.12	11.60	7.83
5 years	4.20	2.77	6.72
10 years	13.03	11.47	9.90
Life*	9.73	8.05	7.30

*The "Blended Index" is a calculation comprised of 50% S&P 500 and 50% Merrill Lynch Domestic Master Bond Index.

PAST PERFORMANCE MAY NOT BE INDICATIVE OF FUTURE RESULTS.

This Newsletter is intended to be presented with the Capital Appreciation Fact Sheet which contains additional disclosure information.

The above benchmark indices are unmanaged indices. The benchmark performance numbers reflect the reinvestment of dividends and interest but do not reflect the deduction of any fees or expenses. ValueWorks' value investing style is not limited to the securities in any of the above indices and utilizes specific investment techniques which are not utilized in the above indices and which may or may not increase volatility. Returns include all dividends, interest, accrued interest and other cash flows received as they may result from the implementation of a particular investment strategy. Trade date accounting has been used. Results for the full period are time weighted. Accounts are included in composite at the start of the first full period under management. From 1996—Q1 1998 exiting accounts are included through the period in which they left. Starting in Q2 1998 exiting accounts are included through the last full period under management. Results were generated at other firms prior to 9/30/01. Information on other composites is available on request. Investments in this strategy may lose value.
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